



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 14, 2000

H.R. 3845 **Small Business Investment Corrections Act of 2000**

As ordered reported by the House Committee on Small Business on March 9, 2000

CBO estimates that enactment of H.R. 3845 would cost about \$50 million in 2000 because it could end the collection of fees currently charged by the Small Business Administration (SBA) for loan guarantees made to private venture capital firms. The bill could reduce offsetting receipts (a form of direct spending); therefore, pay-as-you-go procedures would apply. H.R. 3845 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Through two Small Business Investment Company (SBIC) programs, SBA guarantees 10-year loans made to venture capital firms. To offset the subsidy cost of these guarantees, SBA charges venture capital firms that participate in the program a fee of 1 percent of the loan amount each year. Based on information from SBA and the Office of Management and Budget, CBO estimates that there will be about \$6 billion of guaranteed loan balances at the end of 2000, resulting in the collection of about \$60 million in fees in 2000.

H.R. 3845 would require SBA to reduce the 1 percent fee if the subsidy cost of these programs would otherwise be less than zero. The subsidy cost of a loan guarantee is the estimated long-term cost to the government, calculated on a net present value basis and excludes administrative costs. For fiscal year 2000, the estimated subsidy rate is 1.8 percent for one of the SBIC programs and zero for the other. If SBA reestimates the subsidy cost of these loan guarantees to be less than zero (that is, a "negative subsidy"), H.R. 3845 would require the agency to reduce the fees by reducing the possibility of recognizing any negative subsidies. Based on the likelihood that the subsidy rate for these programs could be less than zero, CBO estimates that enacting this provision would reduce future offsetting receipts. The estimated cost of \$50 million represents the present value of fees that could be eliminated by the bill. Such fees would otherwise be collected annually over the remaining term of the \$6 billion in loan guarantees.

The CBO staff contact is Mark Hadley. The estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.